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# **Korea, Republic of**

## **Tobacco and Products**

### **Annual**

### **2003**

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**Report Highlights:** Korean leaf tobacco area and production are forecast to decrease sharply in 2003. Reduced domestic leaf production will be offset by increased imports and drawing down stocks. While domestic cigarette consumption and production continue to decrease in response to anti-smoking campaigns, manufacturers in Korea are increasing exports to markets such as the Middle East.

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
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## Leaf Tobacco Market Situation

Privatization of Korea Tobacco and Ginseng (KT&G), the former state-owned cigarette manufacturing monopoly, and investment from new private manufacturers such as BAT and Philip Morris have changed the landscape for tobacco production and processing in Korea dramatically since 2001. Along with privatization of KT&G, the government-mandated obligation for KT&G to purchase domestically produced tobacco disappeared in 2001. Although imported tobacco is still subject to a 20 percent tariff, domestic leaf is not particularly competitive with imports which have steadily increased. As a result, leaf tobacco production area is on a sharply declining trend. One thing that has not changed is that Korea remains the 5<sup>th</sup> ranked smoking nation in the world on a per capita basis despite anti-smoking campaigns and steadily expanding restrictions on the areas where Koreans are allowed to smoke.

### Leaf Tobacco Production

Dramatic contraction of leaf tobacco production is forecast in 2003 with area planted expected to decline 25 percent from 2001 levels. The reduction reflects elimination of domestic leaf tobacco purchasing requirements which was initiated in 2001 and cigarette manufacturers' preference for lower priced leaf tobacco imports.

KT&G, the formerly state-owned tobacco processing monopoly, was relieved of its requirements to purchase the bulk of Korea's tobacco production in 2001. Planted area decreased in response to a continued reduction in KT&G's contracts with domestic producers for burley and flue cured leaf tobacco. Planted area is anticipated to decrease by 14 percent in 2003 with significant decreases for next 3-4 years as KT&G reduces the inventory of domestic leaf tobacco.

Inventories, which had been maintained at levels much larger than necessary for processing requirements, are expected to be drawn down now that KT&G is no longer required to purchase most of each year's crop. KT&G is expected to purchase a total 43,013 tons of leaf tobacco in 2003 (7.8 percent less than 2002). In 2003, flue cured and burley tobacco production are anticipated to decrease by 2.7 percent and 17.4 percent, respectively. Burley production will decrease more because stocks are composed primarily of burley and, therefore, processors are less interested in contracting for new burley production. The decline in burley tobacco production is also caused, in part, by the current trend in Korea toward more consumption of American-type cigarettes, which contain more flue cured tobacco. Thus, KT&G uses more flue cured leaves in its newer brands.

In 2002, Korean leaf tobacco production decreased about 16 percent. In 2002, there was a total of 25,935 leaf tobacco growers divided as follows: flue cured (10,829) and burley (15,106). The number of tobacco growers is expected to continue to drop in 2003.

Korea produces burley and flue cured tobacco. In general, seed beds are prepared in early March to early April, transplanting is done in late April to early May, and the leaves are harvested from mid-June to the end of August. Flue cured tobacco is heat dried in bulk driers for four days, and burley tobacco is air dried in the shade for three weeks before storage. KT&G purchases leaf tobacco from October to December through 34 stations across the country and processes it at two factories in Kimcheon (SE Korea) for flue cured and Namwon (SW Korea) for burley. Flue cured tobacco is grown in the eastern part of South Korea and burley tobacco is grown in the western South Korea. According to KT&G, weather conditions in 2002 were favorable during the seeding and early vegetative growth stage

but the typhoon and heavy rains affected plants during the end of the growth stage. The quality of 2002 flue cured and burley production was average with lugs, cutters and upper stalk leaves exhibiting similar quality to the 2001 crop.

### **Leaf Tobacco consumption**

KT&G, the major cigarette manufacturer in Korea, was 100 percent privatized as of December 27, 2003. KT&G's compulsory purchasing of domestic leaf tobacco was abolished when the Tobacco Business Act was revised in 2001. The usage weight of domestic leaf tobacco should contract to 50 percent in 2008 from the current 70 percent. The limitation of foreign ownership of KT&G stock to less than 49 percent in total and less than 7 percent ownership for individual stockholders has also been abolished. Since privatization, KT&G has steadily decreased its contract quantities with domestic leaf tobacco growers. KT&G does not purchase production from uncontracted areas. Currently, despite strong opposition from leaf tobacco growers, continued reduction of planted area and production are expected to continue.

### **Leaf Tobacco Trade**

Korea is both an importer and exporter of flue cured tobacco. In 2002, Korea imported 6,070 tons and 3,858 tons of flue cured tobacco from Brazil and the United States, respectively. Leaf tobacco imports from Brazil increased by 41 percent in 2002 while imports from the United States were stable at the 2001 level. KT&G intends to use more imported flue cured tobacco to make high quality cigarettes and to maintain price competitiveness against foreign brands. Imported flue cured leaf tobacco is on average 30 percent less expensive than domestic flue cured leaf tobacco. Imported leaf tobacco from Brazil costs around 45 percent less than domestic flue cured tobacco. Meanwhile, U.S. tobacco is expected to be utilized less in the future because competing product from other countries is priced more attractively. About 5,700 tons of oriental tobacco were imported and consumed from Turkey and Greece in 2002.

In order to reduce the leaf tobacco stocks which were artificially high due to KT&G's requirement to purchase local production, KT&G regularly exported leaf tobacco at a loss in past years. Korea's burley tobacco exports decreased by 74 percent in 2002 in part due to high stock levels held by foreign buyers. In addition, the elimination of KT&G's domestic purchasing requirement likely has also eliminated pressure for KT&G to export in order to make room in stocks for required domestic purchases. Currently, two foreign-owned cigarette factories in Kyoungsang province have started to produce their own brands this year. Although local tobacco growers and KT&G hoped that foreign cigarette manufacturers would use domestic tobacco, it appears that foreign-owned cigarette manufacturers have concluded domestic leaf tobacco is not competitive with imported tobacco.

### **Leaf Tobacco Stocks**

In 2002, leaf tobacco stocks reached 121,000 tons. According to industry representatives, the optimum leaf tobacco stock to have on hand for cigarette manufacturing is around 76,000 tons. Ending stocks in 2003 are expected to exceed the "optimum" level by 45,000 tons.

### **Cigarette Market Situation.**

In 2003, domestic cigarette sales are expected to continue to decline in line with the 7.8 percent decrease recorded in 2002.

Active anti-smoking campaigns are assessed as playing a large role in the decline in smoking. More intensive smoking restrictions are scheduled to be implemented on July 1, 2003 which will be expected to accelerate the decrease of domestic cigarette consumption in 2003. Primarily, the new restrictions will expand non-smoking areas to include, among others, train stations and platforms, sports stadiums, schools and hospitals.

Among cigarette manufacturers with factories in Korea, KT&G commanded a 79 percent share in 2002 while foreign competitors share increased to 21 percent. The share held by foreign manufacturers is expected to increase to 25 percent in 2003. Despite the decreasing trend in Korean cigarette consumption, KT&G plans to improve profits in the domestic market by focusing on sales of high-priced (2,000Krw/pack) cigarettes.

Among the foreign competitors, British American Tobacco (BAT) increased their market share by almost 11 percent in 2002. BAT is anticipated to further expand market share in 2003 based on growing sales of the Dunhill brand which held 50 percent of the sales of foreign brand cigarettes. In February 2003, BAT started to sell locally manufactured Dunhills from their own factory in Sacheon. BAT also introduced a new high-priced cigarette "Dunhill Top Leaf (3,500 Krw / pack)" noting that Korea is the 8<sup>th</sup> largest cigarette market in the world and the best market for their Dunhill brand. Introduction of more foreign brands on the Korean market is expected to erode continue to erode KT&G's domestic market share. However, KT&G's efforts to introduce a variety of premium brands should partially offset the marketing efforts of foreign manufacturers.

In general, the trend in Korea has been toward the production of more light, slim-sized and high-priced tobacco products. The anti-smoking campaign has educated consumers about the hazards of smoking. In response, Koreans have trended toward the mild and low-tar (less than 6 mg per stick) cigarettes. Accordingly, KT&G increased production of their low-tar and slim-type cigarettes from 24.3 percent to 51.4 percent of overall production in 2002. Sales of high-priced brands (2,000/ krw range/pack) have increased from 1 percent of KT&G's overall sales to 25 percent in 2002. After BAT's introduction of "Dunhill Top Leaf" in February 2003, KT&G has responded by introducing its own "Cloud 9 (2,500Krw/pack)" brand to compete in the market.

KT&G's total cigarette exports increased by 84 percent in 2002 with exports accounting for 21 percent of total sales volume. In 2003, KT&G hopes to increase cigarette exports to the Middle East and Central Asia of their popular brands "PINE" and "88". KT&G sales to the Middle East have improved dramatically through the first quarter of 2003.

**PS&D****PS&D for Tobacco, Unmfg, Total**

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	23940	23940	21200	20985	0	18000
Beginning Stocks	126473	123373	127250	122750	128905	116578
Farm Sales Weight Prod	55587	55587	52350	46653	0	43013
Dry Weight Production	50028	50028	47115	41987	0	38711
U.S. Leaf Imports	3844	3844	4000	3858	0	3800
Other Foreign Imports	9969	4802	10300	7839	0	8100
TOTAL Imports	13813	8646	14300	11697	0	11900
TOTAL SUPPLY	190314	182047	188665	176434	128905	167189
Exports	3254	3254	3000	2038	0	2200
Dom. Leaf Consumption	45993	45993	42160	46961	0	49718
U.S. Leaf Dom. Consum.	4050	4050	4100	5000	0	4500
Other Foreign Consump.	9767	6000	10500	5857	0	6100
TOTAL Dom. Consumption	59810	56043	56760	57818	0	60318
TOTAL Disappearance	63064	59297	59760	59856	0	62518
Ending Stocks	127250	122750	128905	116578	0	104671
TOTAL DISTRIBUTION	190314	182047	188665	176434	0	167189

**PS&D for Flue Cured Tobacco**

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco,Un mfg.,Flue Cured				(HA)(MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	17100	17133	15170	14992	0	13040
Beginning Stocks	68268	68268	69268	69500	73173	64788
Farm Sales Weight Prod	42000	37598	35950	30447	0	29627
Dry Weight Production	37800	33838	32355	27402	0	26664
U.S. Leaf Imports	5500	3844	4000	3858	0	3800
Other Foreign Imports	4000	4802	5300	7839	0	8000
TOTAL Imports	9500	8646	9300	11697	0	11800
TOTAL SUPPLY	115568	110752	110923	108599	73173	103252
Exports	800	1352	1500	1538	0	1500
Dom. Leaf Consumption	37000	31250	26650	31416	0	33141
U.S. Leaf Dom. Consum.	5000	4050	4100	5000	0	4500
Other Foreign Consump.	3500	4600	5500	5857	0	6000
TOTAL Dom. Consumption	45500	39900	36250	42273	0	43641
TOTAL Disappearance	46300	41252	37750	43811	0	45141
Ending Stocks	69268	69500	73173	64788	0	58111
TOTAL DISTRIBUTION	115568	110752	110923	108599	0	103252

**PS&D for Burley Tobacco**

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	6800	6807	6030	6008	0	4960
Beginning Stocks	54705	54705	51405	53250	50155	51790
Farm Sales Weight Prod	18000	17989	16400	16206	0	13386
Dry Weight Production	16200	16190	14760	14585	0	12047
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	100
TOTAL Imports	0	0	0	0	0	100
TOTAL SUPPLY	70905	70895	66165	67835	50155	63937
Exports	3000	1902	1500	500	0	700
Dom. Leaf Consumption	16500	15743	14510	15545	0	16577
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	100
TOTAL Dom. Consumption	16500	15743	14510	15545	0	16677
TOTAL Disappearance	19500	17645	16010	16045	0	17377
Ending Stocks	51405	53250	50155	51790	0	46560
TOTAL DISTRIBUTION	70905	70895	66165	67835	0	63937



**PS&D for Cigarette**

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	97700	97700	93000	93750	0	92000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	97700	97700	93000	93750	0	92000
Imports	15500	15500	20000	18841	0	20000
TOTAL SUPPLY	113200	113200	113000	112591	0	112000
Exports	12800	12800	18000	21400	0	25000
Domestic Consumption	100400	100400	95000	91191	0	87000
TOTAL DISTRIBUTION	113200	113200	113000	112591	0	112000

**Production - Unmanufactured Tobacco Total**

	Area Planted			Production		
	(HECTARES)			(METRIC TONS)		
	2001	2002	2003	2001	2002	2003
Tobacco, Unmfg., Burley	6,807	6,008	4,960	17,989	16,206	13,386
Dark Air & Sun Cured	0	0	0	0	0	0
Dark Air Cured	0	0	0	0	0	0
Dark Fire Cured	0	0	0	0	0	0
Tobacco, Unmfg., Flue Cured	17,133	14,992	13,040	37,598	30,447	29,627
Light Air Cured	0	0	0	0	0	0
Tobacco, Unmfg., Oriental	0	0	0	0	0	0
Tobacco, Unmfg.	23,940	20,985	18,000	55,587	46,653	43,013

## Trade Matrix

### Korea: Total Imports of Unmanufactured Tobacco for CY2002 - 2003

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
BRAZIL	6,070	16,908	2,208	6,370
U.S.A.	3,858	32,555	899	7,471
GREECE	3,878	17,273	16	92
TURKEY	2,538	6,081	0	0
P.R. CHINA	465	1,441	0	0
BULGARIA	600	1,413	0	0
TANZANIA	10	29	3	15
INDIA	0	0	303	880
ARGENTINA	0	0	198	678
BANGLADESH	0	0	40	91
PAKISTAN	0	0	16	31
GERMANY	0	0	8	48
FRANCE	0	0	4	23
Total	17,419	75,700	3,695	15,699

Source: Korea Trade Information Services

**Korea: Imports of Burley for CY 2002 - 2003**

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
U.S.A.	0	0	0	0
GERMANY	0	0	8	48
PAKISTAN	0	0	16	31
FRANCE	0	0	4	23
Total	0	0	28	102

Source: Korea Trade Information Services

**Korea: Imports of Flue-cured for CY2002 - 2003**

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
U.S.A.	3,858	32,555	899	7,471
BRAZIL	6,070	16,908	2,208	6,370
GREECE	694	1,597	16	92
P.R. CHINA	600	1,413	0	0
BULGARIA	465	1,441	0	0
TANZANIA	10	29	3	15
INDIA	0	0	303	880
ARGENTINA	0	0	198	678
Total	11,697	53,943	3,667	15,597

Source: Korea Trade Information Services

**Korea: Imports of Oriental for CY2002 - 2003**

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
GREECE	3,184	15,676	0	0
TURKEY	2,538	6081	0	0
TOTAL	5,722	21,757	0	0

Source: Korea Trade Information Services

**Korea: Total Exports of Unmanufactured Tobacco for CY 2002 - 2003**

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
GREECE	632	2,903	497	2,231
TURKEY	1,108	4,444	0	0
BULGARIA	158	637	0	0
FRANCE	126	462	0	0
GERMANY	14	112	0	0
Total	2,038	8,558	497	2,231

Source: Korea Trade Information Services

**Korea: Exports of Burley Tobacco for CY 2002 - 2003**

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
GREECE	216	868	180	755
BULGARIA	158	637	0	0
FRANCE	126	462	0	0
Total	500	1,967	180	755

Source: Korea Trade Information Services

**Korea: Exports of Flue-cured Tobacco for CY 2002 - 2003**

Country	2002		2003	
	MT	\$000	MT	\$000
GREECE	416	2,035	317	1,476
GERMANY	14	115	0	0
TURKEY	1,108	4,444	0	0
Total	1,538	6,591	317	1,476

Source: Korea Trade Information Services

**Korea: Imports of Filter Tip Cigarettes for CY 2002 - 2003**

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
U.K.	10,072	115,820	655	8,082
U.S.A.	4,039	61,892	22	328
JAPAN	3,727	47,846	397	5,021
GERMANY	1,278	18,441	1	38
P.R. CHINA	689	3,856	28	165
NETHERLANDS	148	1,912	55	1,087
POLAND	47	609	0	0
HONG KONG	31	375	1	12
FRANCE	36	354	0	0
SPAIN	32	344	0	0
SWEDEN	16	147	0	0
SWISS	1	54	0	0
GREECE	3	32	0	0
INDONESIA	2	17	0	0
Total	20,121	251,699	1,159	14,733

Source: Korea Trade Information Services

**Korea: Exports of Filter Tip Cigarettes for CY 2002 - 2003**

Country	2002		2003(Jan-Feb)	
	MT	\$000	MT	\$000
U.A.E.	10,777	47,242	3,290	15,565
AFGHANISTAN	9,220	41,396	2,021	9,713
TURKMENISTAN	4,711	18,411	1,320	5,671
U.S.A.	1,628	23,511	198	2,666
KYRGYZSTAN	890	3,909	380	1,615
RUSSIA	128	2,280	51	434
P.R. CHINA	115	2,005	12	275
INDONESIA	25	232	14	132
PHILIPPINES	15	132	17	124
BELARUS	122	512	27	116
MONGOLIA	95	765	12	104
KAZKHSTAN	119	581	11	99
AUSTRALIA	35	290	4	41
SINGAPORE	53	337	1	16
TAIWAN	45	303	0	0
UZBEKISTAN	410	1,746	0	0
A. SAMOA	13	74	2	0
Others	94	1,198	11	234
Total	28,495	144,924	7,371	36,805

Source: Korea Trade Information Services



## Price Tables

### Korea: Purchase price of Burley and Flue-cured Tobacco by KT&G for 2002

(Korean Won / KG)

Stalk Position	Leaf & Cutter				Tip & Lug		
Grade	No.1	No.2	No.3	No.4	No.1	No.2	No.3
Burley	6,610	5,980	5,570	4,430	5,570	4,750	4,120
Flue-cured	7,660	6,940	6,330	5,020	6,330	5,430	4,660

Source: KT&G

### Korea: Imports Prices of Flue-cured and Oriental Tobacco

(US\$/KG, CIF basis)

Year	1995	1996	1997	1998	1999	2000	2001	2002
Flue-cured	7.39	8.41	9.07	9.16	8.49	6.71	4.95	4.61
Oriental	5.02	5.45	5.45	6.07	5.37	4.8	4.65	3.8

Source: Korea Trade Information Services

### Korea: Exports Prices of Burley and Flue-cured Tobacco

(US\$/Kg, FOB basis)

Year	1995	1996	1997	1998	1999	2000	2001	2002
Burley	8.11	4.6	None	4.33	4.13	3.85	3.85	3.93
Flue-cured	6.06	4.43	4.14	4.31	4.87	4.95	4.22	4.28

Source: Korea Trade Information Services

## Market Share

### Korea: Domestic and Foreign Cigarette Sales

(Unit in Million Sticks)

Year	Domestic	Growth	Foreign	Growth	Total	Growth
1991	93,848	2.5%	4,990	19.2	98,838	3.3
1992	96,356	2.7	5,333	6.9	101,689	2.9
1993	99,119	2.9	7,158	34.2	106,277	4.5
1994	87,699	-11.5	8,549	19.4	96,248	-9.4
1995	88,293	0.7	12,490	46.1	100,783	4.7
1996	93,010	5.3	11,509	-7.9	104,519	3.7
1997	92,622	-0.4	11,686	1.5	104,308	-0.2
1998	101,326	9.4	5,246	-55.1	106,572	2.2
1999	89,322	-11.8	6,167	17.6	95,489	-10.4
2000	95,068	6.4	9,872	60.1	104,940	9.9
2001	83,416	-12.3	15,501	57.1	98,917	-5.7
2002	72,350	-13.3	18,841	21.5	91,191	-7.8

Source: Industry Data

**Korea: Cigarette Sales by Major Market Competitors for CY 2001 - 2003**

(Unit in Million Sticks)

Company	2001		2002		2003(Jan-Mar)	
	Sales	Mkt Shr.	Sales	Mkt Shr.	Sales	Mkt Shr.
KT&G(Korea)	83,416	84.3%	72,350	79.34%	16,375	76.90%
British American Tobacco(U.K.)	4,620	4.7%	9,774	10.72%	2,758	12.95%
Philip Morris(U.S.A.)	6,138	6.2%	5,209	5.71%	1,306	6.14%
Japan Tobacco(Japan)	4,115	4.2%	3,820	4.19%	844	3.96%
Other	628	0.6%	38	0.04%	10	0.05%
Total	98,917	100.0%	91,191	100.0%	21,293	100.0%

Source: Industry Data

**Korea: Market Share of Top 5 Foreign Brand Cigarettes for CY 2001 - 2003**

(Unit in %)

	2001	2002	2003(Jan-Mar)
Dunhill(BAT)	27.5%	50.2%	55%
Virginia Slims(PM)	20.5%	15%	13.5%
Mild Seven(JT)	24.7%	19%	16.1%
Marlboro(PM)	12.4%	9.3%	8%
Other	8.8%	6.5%	7.4%

Source: Industry Data

## Tariffs and Taxes

### Korea: Taxes and Charges for Cigarettes

(As of February 1, 2002, Unit in Korean Won)

Tax and Charge	Retail price of 2,000 Won per pack of cigarettes
Taxes	
* Consumption (Excise) taxes	510
* Education Tax (50% of Consumption tax)	255
* Value-added tax (10% of wholesale price)	164
Charges	
* Health Fund (Public Health Promotion Supporting Fund)	150
* Green Fund (Public Environment Supporting Fund)	4
* Subsidy Fund (Leaf Tobacco Cultivation Stabilizing Fund) 1/	10
	-----
Subtotal of taxes and charges	1,093
Retailer Margins (10% of retail price)	200
Net Cost per pack of cigarettes	707

1/ A subsidy fund is charged to KT&G only, not foreign cigarette manufacturers in Korea

Source: Industry data

### Korea: Tobacco and Cigarettes Tariff Rates

HS code	Description	Actual Applying Rate			WTO Bound Rates 1/		
		2002	2003	2004	2002	2003	2004
2401	Unmanufactured tobacco:	20	20	20	57.4	55.7	54.0
2402	Cigars, cheroots, cigarillos, and cigarettes, of tobacco or of tobacco substitutes 2/	20	30	40	72.4	69.0	65.5
2403	Other manufactured tobacco and manufactured tobacco substitutes, "homogenized" or "reconstituted" tobacco, tobacco extracts and essences	40	40	40	72.4	69.0	65.5

1/ According to WHO agreement, the tariff rate is scheduled to drop evenly over 10 years between 1995 and 2004.

2/ Effective date is July 1 each year. Thru the end of June 2002, a 10-percent tariff is to be imposed on products classified under HS2402.